

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2013

Docket No. ACR2013

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO  
QUESTIONS 1-9 OF CHAIRMAN'S INFORMATION REQUEST NO. 6

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 6, issued on February 7, 2014. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Please confirm that, as detailed in Library Reference USPS-FY13-4, Excel file "Filing Copy FY 2013 STD Mail BD.xls," tab "ECR FLATS (ltr-shaped) P. C2-3," (enhanced carrier route (ECR) Flats letter-shaped volume) over 422 million Commercial ECR Letters were mailed at ECR Flats prices in FY 2013. If not confirmed, please explain. Please note that, for this question, ECR is used to refer to Carrier Route, High Density, High Density Plus, and Saturation Mail.
  - (a) Please provide the rationale for this pricing practice. Please identify which year this practice began, and in what year it was first formalized in the billing determinant workpapers.
  - (b) Nearly 80 percent of ECR Flats letter-shaped volume is priced as sectional center facility (SCF) destination entered Saturation Flats mail. Where was this mail entered (e.g., Origin facility, destination network distribution center (DNDC), destination sectional center facility (DSCF), or destination delivery units (DDU))?
  - (c) Nearly 7 percent of ECR Flats letter-shaped volume is priced as destination NDC or Origin entered Saturation Flats mail. Where was this mail entered (e.g., Origin facility, DNDC, DSCF, or DDU)?
  - (d) Using prices from Docket No. R2013-1, please provide the minimum per-piece price category and price paid by mailers of:
    - i. Commercial Carrier Route Letters entered at the DDU;
    - ii. Commercial High Density Letters entered at the DDU;
    - iii. Commercial High Density Plus Letters entered at the DDU; and
    - iv. Commercial Saturation Letters entered at the DDU
  - (e) Please confirm that the volume of ECR Letters mailed at ECR Flats prices is considered ECR Flats volume for the purposes of market dominant price changes. If confirmed, please identify which year this volume was first considered ECR Flats volume for the purposes of market dominant price change calculations. If not confirmed, please explain.
  - (f) In FY 2013, were the mail processing costs of ECR Letters mailed at ECR Flats prices allocated to ECR Letters or ECR Flats? Please explain the process the Postal Service uses to allocate the mail processing costs of ECR letter-shaped pieces mailed at ECR Flats prices.
  - (g) In FY 2013, were the delivery costs of ECR Letters mailed at ECR Flats prices allocated to ECR Letters or ECR Flats? Please explain the process the Postal Service uses to allocate the delivery costs of ECR letter-shaped pieces mailed at ECR Flats prices.
  - (h) Please explain why ECR Flats DSCF prices are used as the default price rather than ECR Letter DSCF prices. As part of your response, please specify the Mail Classification Schedule language that provides for the entry of ECR Letters at the DDU at ECR Flats DSCF prices.

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**RESPONSE:**

Confirmed.

a. Since the middle of FY 2002, letter-shaped pieces that do not have an 11-digit barcode or are not automation-compatible, and are presorted at the Carrier Route, High Density, or Saturation level, have been required to pay the same rate as flat shaped pieces. The rationale for this pricing is that without the 11-digit barcode these pieces are not compatible with letter DPS operations, and therefore impose additional mail processing and/or delivery costs associated with flats. The way the structure is currently priced has to do with non-barcoded or non-machinability. So, some letter-sized pieces that pay the equivalent flat prices could be barcoded, but not meet the physical machinability standards of a letter (no tabs, ineligible attachments, etc.). These pieces would have to be handled manually, because they cannot be processed on letter sorting equipment. Including these pieces as flats was first formalized in the billing determinant workpapers and ACR in FY 2011. .

b. As outlined in DMM section 246.4.0, mail receiving the DSCF discount must be entered at either the DSCF or DDU (unless the mailer is granted an authorized exception).

c. As outlined in DMM section 246.3.0, mail receiving the DNDC discount must be entered at the DNDC unless the mailer is granted an authorized exception. Origin-entered mail is entered at an origin facility.

d. In FY2007 the Postal Service eliminated DDU discounts for ECR letters. The operational preference is to have all letters in DPS rather than cased or carried to the street as an additional bundle. The pieces in i. - iv. above would pay the appropriate DSCF price

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e. Confirmed. ECR Letters mailed at the ECR Flats rate have been included in the ECR Flats RPW mail category codes since FY2004, and these pieces have been considered ECR Flats for purposes of market dominant price change calculations for all market dominant price changes since the PAEA was enacted. With the separate letter pricing for Saturation and High Density Letters weighing more than 3.3 ounces, as of January 26, 2014, rather than by reference to the Flats prices, we plan on looking to update our practices in a future price change.

f.-g. The FY 2013 CRA attributable cost for Standard Mail High Density and Saturation Flats and Parcels includes all the costs (mail processing, delivery and all other costs) for high density and saturation letters mailed at flats prices. This is done via a Final Adjustment in the D Report, USPS-FY13-31, as follows. The Cost Segments and Components Report (C Report) shows the following results:

<b>Cost Segments and Components Attributable Costs</b>	
<b>Standard Mail</b>	Total Attributable Costs (in 1,000s)
High Density and Saturation Letters	373,324
High Density and Saturation Flats and Parcels	810,788

The costs shown in the Cost Segments and Components Report for Standard Mail High Density and Saturation Letters are for all letter-shaped high density and saturation pieces. However as shown in USPS-FY13-14, in FY 2013 there were 6.246 billion such letter-shaped pieces, while Standard Mail High Density and Saturation Letters includes only 5.712 billion of these pieces (or 91.45 percent). The rest, 534 million letter-shaped pieces paid at flats rates, are part of Standard Mail High Density and Saturation Flats and Parcels. FY 2013

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RPW includes these 534 million letters paid at flats rates in Standard Mail High Density and Saturation Flats and Parcels.

As a result, the following adjustment was made in the D report. The volume variable costs (all volume variable costs including processing and delivery) reported for Standard Mail High Density and Saturation Letters in the CRA were adjusted to reflect only 91.45 percent of the volume variable costs shown in the Cost Segments and Components Report for that product. The rest of the costs shown in the Cost Segments and Components Report for Standard Mail High Density and Saturation Letters (31.9 million) were shifted to the Standard Mail High Density and Saturation Flats and Parcels costs in the CRA. The resulting attributable costs are shown below.

<b>Cost and Revenue Analysis (CRA) Attributable Costs</b>	
<b>Standard Mail</b>	Total Attributable Costs (in 1,000s)
High Density and Saturation Letters	341,411
High Density and Saturation Flats and Parcels	842,701

No adjustment or cost allocation is needed for Standard Mail Carrier Route in the CRA. Corresponding adjustments have been done for ECR mail processing and delivery costs in USPS-FY13-18, USPS-FY13-19, and USPS-FY13-26.

h. The DMM does not use the ECR Flats DSCF prices as the default. We have clarified these pieces as letters to ensure the appropriate letter DSCF prices are paid, and established a new price table for these letters, as of January 26, 2014.

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2. For Global Plus Contracts, volume (pieces) in the Booked version of the International Cost and Revenue Analysis (ICRA) exceeds volume in the Imputed version. See USPS-FY13-NP2, Excel files "Reports (Booked).xls" and "Reports.xls," worksheet tabs A Pages (c), Tables A-2 in each file. Please reconcile the difference.

**RESPONSE:**

No discrepancy to reconcile has been located. Global Plus volume (pieces) in the USPS-FY13-NP2, Excel files "Reports (Booked).xls" and "Reports.xls," worksheet tabs A Pages (c), Tables A-2, and in USPS-FY13-NP2 (Revised 2/6/14), Excel files "Reports (Booked).xls" and "Reports.xls," worksheet tabs A Pages (c) all appear to be the same amount.

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3. Please refer to the responses to CHIR No. 3, questions 4(a)-(b), which provide the final CY 2012 annual and preliminary CY 2013 year-to-date monthly (January-November) quality of service measurement results for the link to terminal dues. Please explain the causes of the change in the CY 2013 preliminary year-to-date on-time percent performance compared with the CY 2012 annual performance for letterpost items reported in the table "FINAL Quality of Service results 2012."

**RESPONSE:**

FY 2013 Quality of Service results were impacted by low test volumes, according to IPC, the measurement system provider. The test volume issues were not corrected until after the middle of calendar year 2013. After that time, the preliminary reports generally show improvements over the same periods in the prior year.

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4. Please refer to the response to CHIR No. 3, question 8, which provides the financial results for the Inbound Market Dominant Express Service Agreement 1 product. In its response, the Postal Service states that the financial results are for Quarter IV of FY 2013—the only quarter for which there were inbound Express items. The financial results show, in the column headed Total Revenue, that total product revenue is obtained from Library Reference “USPS-FY13-NP30 (FY13 Revenue, Pieces and Weight Report).” In the column headed Volume, total volume consists of the sum of inbound Express items entered by seven countries. See Library Reference USPS-FY13-NP33, Excel file “CHIR No. 3 Questions 5,7,8,11.xls,” worksheet tab Question 8, Total Revenue (column (d)) and Volume (column (a)). The following questions seek clarification as to how the financial results were developed.

- (a) Please cite a cell reference in USPS-FY13-NP30, FY 2013 Revenue, Pieces and Weight (RPW) Report, for the revenue figure that was used for total revenue in column (d), or show the calculations used to derive total revenue and provide sources for all figures in the calculations.
- (b) Please provide the corresponding RPW volume associated with the RPW revenue figure cited in subpart (a) above. If the RPW volume associated with the cited RPW revenue figure differs from the calculated volume in column (a), please reconcile.
- (c) Please explain why the Postal Service calculated total volume for inbound Express items rather than use the corresponding RPW volume associated with the cited RPW revenue figure for total volume in column (a).

**RESPONSE:**

(a) The reference to USPS-FY13-NP30 was not correct. The revenue figure appears in NP31FY13RPWExtractNONPUBLIC.xls in USPS-FY13-NP31 at tab Rate Category RPW Data in cell D168.

(b) The volume shown in Library Reference USPS-FY13-NP33, Excel file “CHIR No. 3 Questions 5,7,8,11.xls,” worksheet tab Question 8, (column (a)) and the RPW volume associated with the revenue shown in Library Reference USPS-FY13-NP33, Excel file “CHIR No. 3 Questions 5,7,8,11.xls,” worksheet tab Question 8, (column (d)) are equal. Express volume and weight in RPW are reported with the parent product, Inbound International Letter Post.



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(c) The calculated total volume is the volume associated with the RPW revenue. The RPW volume and weight does not appear with the revenue to avoid double counting with the parent product.

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5. Please refer to the response to CHIR No. 3, question 11, which addresses the negative contribution for International Priority Airmail (IPA) in FY 2013 compared to FY 2012. The Postal Service's response includes financial results for IPA from FY 2008 through FY 2013. A preliminary analysis of the IPA financial results shows that unit revenues decreased 4.2 percent while unit costs increased 103.8 percent in FY 2013 compared to FY 2012. Over the entire period, unit revenues decreased 8.1 percent and unit costs increased 20.0 percent. The result is a 240.3 percent decrease in unit contribution in FY 2013 compared to FY 2012, and a monotonic decline over the entire period that produces a 258.5 percent decrease in unit contribution. Please explain the causes of the decrease in unit revenue and the increase in unit costs in FY 2013 compared to FY 2012, and from FY 2008 through FY 2013.

**RESPONSE:**

Before addressing some of the possible explanations for the percent **cost** changes, the importance of the narrative cannot be stressed enough. The ICRA IPA line is the non-NSA residue remaining after subtracting the NSA amounts from the IPA total. The Postal Service's recent reply comments to the Public Representative provide a good summary and it is repeated in part below:

[I]t may be useful to start with the response to Question 11 of ChIR No. 3:

Non-NSA IPA constitutes about 2 percent of total IPA volume and the costs reported in the ICRA are small residual portions of the entire IPA "parent product" for which costs are estimated.

The cost data systems cannot distinguish between the non-NSA part of IPA and the NSA part of IPA, so the term "parent product" in the response was merely intended to refer to the totality of IPA pieces (NSA and non-NSA) that the cost data systems consider to be IPA. Yet, as noted, of the two parts of "total" IPA, the NSA part constitutes about 98 percent of the total product volume and the non-NSA part constitutes about 2 percent of the total product volume. The line reported in the ICRA as IPA reflects only the data for the non-NSA portion. Perhaps the response to Question 11 might have been clearer if it had indicated that the non-NSA portion of IPA is only a small part of the "parent product" for which costs are *initially* estimated. As described in the next sentence of the Question 11 response, however, the initial estimate of "total" IPA costs

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is then split for reporting purposes into the NSA and non-NSA portions, and the initial estimate of the “parent product” does not appear as a line in the ICRA. The important point is that the reported (non-NSA) portion of IPA is only the residue remaining after the costs estimated for the much larger NSA portion are subtracted from the initial “total” estimate (and reported instead as part of the Outbound International Global Plus Contracts row). The result is that the initial estimate of “total” IPA costs is overwhelmingly driven by NSA pieces, and the remaining non-NSA part is very difficult to capture for costing purposes.

Postal Service ACR Reply Comments (February 14, 2014) at 7, note 21. The year-to-year and time period percent cost changes are measuring changes to a product that is not individually captured in the cost systems and that has shrunk from nearly ten million pieces annually to less than three million.

As noted in the response to ChIR No. 3, there is a gross to net weight issue because the NSA data are only net weight and RPW is gross weight, which is used to cost the flows for the residual products. There might also be inconsistencies lining up NSA data that are only available by Rate Group with the Sirvo country/group data that are used to cost it. The treatment of M-Bags may be another issue, because the costing systems lump ISAL and IPA M-Bags in with the product, but the M-Bag costs may be different.

Any or all of these variables might help explain the variations in the percent changes and if implemented they might refine the costing, but the outcome is unknown. The behavior of the NSA mail comprising 98 percent of total IPA will still overwhelm the results.

Similar issues are at work on the **revenue** side. The total revenue from the non-NSA portion is derived by subtracting the total revenue from the NSA portion from total IPA revenue. Non-NSA *unit* revenue is then simply the non-NSA total revenue divided

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by non-NSA volume. More to the point, there are no specific billing determinants for the non-NSA portion which alternatively could be used to “build up” the unit revenue of the non-NSA portion. And without such specific billing determinants, there is no basis to decompose the trend in unit revenues identified in the question or, more importantly, target the specific rate groups and rate elements that would need to be adjusted to reverse those trends. Nonetheless, the Postal Service continues to work on compensatory pricing for this small volume component.

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6. The following question concerns the FY 2013 ICRA report and the Foreign Postal Settlement (FPS) system. Inbound revenue reported in the Imputed version of the FY 2013 ICRA report differs from inbound revenue reported in the Booked version of the FY 2013 ICRA report, and in the RPW report. In addition, costs for outbound products reported in the Imputed and Booked versions of the FY 2013 ICRA report differ.

- (a) Please discuss any progress made since the last fiscal year to report international revenues and costs by product in a single or unified version of the FY 2013 ICRA report that is consistent with the Postal Service's financial statements.
- (b) Please identify and explain the technical and other issues that precluded the Postal Service from reporting international revenues and costs by product in a single or unified version of the FY 2013 ICRA report that is consistent with the Postal Service's financial statements.
- (c) Please discuss Postal Service plans to address technical and other issues identified in your response to subpart (b) above, and provide a schedule for completing any necessary work to permit the reporting of international revenues and costs by product in a single or unified version of the ICRA report that is consistent with the Postal Service's financial statements.

**RESPONSE:**

(a) Given the press of other work and the scarcity of resources, the Postal Service did not pursue any activity on this issue during FY13.

(b) The technical difficulties primarily involve coordinating large systems that serve different functions for ICRA reporting purposes. For example, the systems supporting RPW reporting and the systems supporting FPS settlements were designed for different functions and they are not easily adapted to ICRA reporting.

The difficulties are generally the same as described for FY12 and they are recapped below with some additional explanation.

FPS settlement data are not sufficient to distinguish the various Outbound products required for reporting. For instance, FPS does not distinguish between items that are settled as ordinary Letter-Post: First Class Mail International Letters and Cards, Priority

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Mail International Small Flat Rate Boxes and Envelopes and International Priority Airlift. However, each of those products is required to be separately reported in the ICRA, so the ICRA relies on the SIRVO/RPW system as its source for ICRA outbound data. SIRVO/RPW reports revenue, pieces and weight by product, tying out to known dispatch weight. FPS pieces and revenue are determined by settlement IPKs, exchange rates and the like, tying out to settlement weight (which is close, but may not tie out exactly to dispatch weight). Additionally, the RPW reporting of international mail uses revenue and financial reporting systems other than SIRVO, such as PostalOne for bulk mail entered data, RDM for POS or retail entered data, and specialized reports such as for Negotiated Service Agreement activity. Finally, for the Letter-Post items that are settled by weight only (most Transition System countries), FPS only retains the weight information needed to compute the settlements and does not provide piece counts and product level detail. Since that settlement process requires only weight, there is no reason for FPS even to track volume and products. Opening all of the mail would be impractical, so SIRVO handles the issue with statistical samples.

(c) Given the continued press of other work and scarcity of resources, the Postal Service has not examined the feasibility of moving forward with the investigation and analysis required to implement this effort.

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7. In Library Reference USPS FY13-33, Access,DeliveryPointsFY2013.XI., are the data fields "ACTIVE RES OTH1" AND "ACTIVE BUS OTH1" synonymous with door-to-door deliveries? If not, please identify the data field(s) that contain the number of residential door-to-door deliveries and the number of business door-to-door deliveries.

**RESPONSE:**

The data field "ACTIVE RES OTH1" reflects the number of active mail deliveries made to residences by means other than curbside, Post Office box, or Neighborhood Delivery Collection Box Unit (NDCBU), and includes door-to-door (walking route) and door-slot deliveries to residences. The data field "ACTIVE BUS OTH1" reflects the number of active mail deliveries made to businesses by means other than curbside, Post Office box, NDCBU, and includes door-to-door (walking route) and door-slot deliveries to businesses.

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8. Please provide: (a) the number of Automated Postal Centers (APCs) in service at the end of FY 2013; and (b) to the extent not synonymous with APCs, the number of postal kiosks in service at the end of FY 2013.

**RESPONSE:**

(a) There were 2,785 active USPS self-service kiosks in service at the end of Fiscal Year 2013.

(b) Not applicable.



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9. With regard to the Offshore Special Study found in Library Reference USPS-FY13-29, conducted in response to Order No. 465, rule 3055.7, what has the Postal Service used as a proxy for Inbound Surface Parcel Post (at Universal Postal Union (UPU) rates) for service performance measurement in FY 2013?

**RESPONSE:**

Single-Piece Parcel Post (now called Standard Post) was used to serve as the proxy for Inbound Surface Parcel Post (at UPU rates).